

Message Text

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PAGE 01 LIMA 02900 060733Z
ACTION ARA-14

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E.O. 11652: N/A
TAGS: ENRG, PE
SUBJECT: PETROPERU AND OCCIDENTAL SIGN TWO OPERATING CONTRACTS

REF: LIMA 2466

BEGIN UNCLASSIFIED

1. AS ANTICIPATED (SEE REFTTEL) PETROPERU AND OCCIDENTAL (OXY) APRIL 3 SIGNED TWO NEW OIL OPERATING CONTRACTS, ONE FOR EXPLOITATION OF BLOCK 1-B IN THE NORTHER PERUVIAN JUNGLE AND THE OTHER ONE FOR SECONDARY RECOVERY IN THE LOBITOS, EL ALTO AND LOS ORGANOS FIELDS IN NORTHWESTERN PERU. IN THE SECONDARY RECOVERY OPERATIONS OXY WILL WORK IN ASSOCIATION WITH THE ARGENTINE COMPANY BRIDAS EXPLORACIONES Y PRODUCCION S.A.

2. CONTRACT FOR BLOCK -1-B WILL HAVE A DURATION OF 30 YEARS AND THE PRODUCTION SPLIT WILL BE BASICALLY 50-50. HOWEVER, OXY WILL BE GRANTED AN ADDITIONAL PRODUCTION SHARE TO COMPENSATE IT FOR THE LATER INVESTMENTS AND OPERATING COSTS THAT WILL BE REQUIRED BY THE EXPLOITATION OF THE HEAVY CRUDES IN BLOCK 1-B END UNCLASSIFIED.BEGIN LIMITED OFFICIAL USE.

A RELIABLE SOURCE HAS INFORMED THE EMBASSY THAT THE
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PAGE 02 LIMA 02900 060733Z

SPLIT FOR HEAVY CRUDE (UP TO 16 API) WILL BE AS FOLLOWS:
(A) UP TO 12 MILLION BBLs: OXY 75 PERCENT - PETRO 25 PERCENT
(B) OVER 12 AND UP TO 20 MILLION BBLs: OXY 70 PERCENT PETRO 30 PERCENT
.
(C) OVER 20 AND UP TO 30 MILLION BBLs: OXY 60 PERCENT - PETRO 40 PERCENT

(D) OVER 30 MILLION BBLs: OXY 50 PERCENT - PETRO 50 PERCENT.
WHENEVER THE CRUDE'S GRAVITY EXCEEDS 16 API, SPLIT WILL BE

50-50. END LIMITED OFFICIAL USE.

3. BEGIN UNCLASSIFIED - ACCORDING TO A COMPANY SOURCE
OXY PLANS TO INVEST ABOUT \$150 MILLION OVER THE NEXT TWO
YEARS IN ITS JUNGLE EXPLOITATION ACTIVITIES IN BLOCKS 1-A
AND 1-B.

4. AS REPORTED EARLIER BLOCK 1-B, AN AREA OF ONE MILLION
HECTARES LOCATED IMMEDIATELY EAST OF OXY'S BLOCK 1-A, ALONG
THE ECUADORIAN BORDER, WAS FORMERLY UNDER CONTRACT WITH
UNION/TENNECO. UNION DRILLED 4 EXPLORATORY WELLS DURING
1974-75 AND FOUND ONLY HEAVY GRAVITY (10 API) OIL WHICH WAS
NOT PROFITABLE TO PUMP. OXY PLANS TO MIX THIS OIL WITH SOME
FROM ITS BLOCK 1-A AREA (20 TO 40 API) IN ORDER TO EXPLOIT
THE 1-B DEPOSITS.

5. THE SECONDARY RECOVERY CONTRACT IS FOR 15 YEARS WITH
A PRODUCTION SPLIT OF 51 PERCENT FOR PETROPERU AND 49 PERCENT FOR OXY

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BRIDAS. ESTIMATED INVESTMENT IN THIS PROJECT IS ABOUT \$150 MILLION
OVER THE NEXT FOUR YEARS. ACCORDING TO PETROPERU OFFICIALS
SECOND RECOVERY WORKS ARE EXPECTED TO PRODUCE AN AD-
DITIONAL 100 MILLION BARRELS FROM THE OLD FIELDS OVER
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PAGE 03 LIMA 02900 060733Z

THE LIFETIME OF THE CONTRACT. IT IS ESTIMATED THAT THE
FIRST FLOWS FROM THIS OPERATION WILL BEGIN IN ABOUT 1-1/2
YEARS.

COMMENT: APART FROM THE ADDITIONAL CRUDE PRODUCTION AND
THE RESULTING FOREIGN EXCHANGE EARNINGS, THESE NEW CON-
TRACTS ALSO PROVIDE PERU WITH A PSYCHOLOGICAL BOOST AT A
CRUCIAL POINT DURING THE CURRENT ECONOMIC/FINANCIAL CRISIS.
IT IS HOPED THAT THE SIGNING OF THESE CONTRACTS WILL
GENERATE INTEREST AMONG OTHER OIL COMPANIES TO SEEK NEW
OPERATING CONTRACTS FOR BOTH THE CONTINENTAL SHELF AND
THE JUNGLE. MOST FOREIGN CONTRACTORS HAVE HAD A "WAIT AND
SEE" ATTITUDE REGARDING THE TERMS AND CONDITIONS OXY WOULD
OBTAIN IN THE FIRST CONTRACT UNDER THE NEW PETRO-
LEUM NEGOTIATING SYSTEM. ONCE THE TERMS OF THE CONTRACT
ARE MADE PUBLIC, SOME OF THE COMPANIES THAT HAVE BEEN WAITING
IN THE WINGS MAY SHOW MORE ACTIVE INTEREST IN OPENING
OPERATIONS IN PERU.

6. WE HAVE BEEN INFORMED THAT OXY CONTRACTS WILL
BE PUBLISHED AT SOME UNSPECIFIED FUTURE DATE. AT THAT TIME WE
WILL POUCH COPIES TO DEPARTMENT (ARA/AND-KEMP).
SHLAUDEMANN

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